

Address by Admiral Stansfield Turner
Director of Central Intelligence
The Alliance to Save Energy
Washington, D. C.
Wednesday, 17 October 79

Gas lines have disappeared. Oil stocks are being rebuilt. To the average citizen, the pressure to conserve is dissipating rapidly. Yet, the international oil market remains precariously balanced. It is highly vulnerable to supply or demand disruptions. A coal strike or harsh winter, for instance, could cause temporary shortages and push oil prices higher. Further, political disruptions in OPEC countries like Iran could not only cause longer term shortages, but could create a psychological panic that would have more than psychological repercussions.

Even if there are no such untoward events, the outlook for oil supply is dim. The emerging economic recession is welcome, perhaps, only because it will moderate oil demand. The next upswing of the business cycle will cause demand to rise again. When it does, we cannot count on increased supplies being available. Beyond the mid 1980s, it would be unwise to count on any substantial increases in world oil output.

Senator Percy referred to our 1977 publication on the world energy outlook. That was the beginning, incidentally, of a new policy on the part of the Central Intelligence Agency to release as much information as we can in an unclassified form, not only on energy issues but on other issues of national import. We hope our studies, the research that we do on the country's behalf, will help to improve the quality of national debate on important subjects. That oil study in 1977 concluded that--and I quote--"In the absence of greater energy conservation, projected world demand for oil will approach productive capacity by the early 1980s. In these circumstances, prices will rise sharply to ration available supplies."--end quote. We were widely criticized for being overly pessimistic. As it turned out, we were right on target. Witness the 60 percent increase in oil prices since 1978, and the prospects for continued serious oil market problems in the foreseeable future.

It has become conventional wisdom to blame this situation on the events in Iran last winter which removed 3 to 4 million barrels of oil per day from the world market. If we survey the outlook for oil production in the Middle East today, however, the situation has worsened everywhere, not just in Iran. Plans for increasing productive capacity in the 1980s have been trimmed; production ceilings have been imposed at levels below today's capacities.

In Saudi Arabia, policy is to limit output to 8-1/2 million barrels a day, except when they believe circumstances make it necessary to mitigate this policy to prevent severe market disruption. Current production of about 9-1/2 million barrels a day is close to their

sustainable capacity, and little or no increase in capacity is in prospect. There once were plans to increase productive capacity to 16 million barrels per day by the mid-1980s, but those plans are uncertain today.

Iraq and Kuwait have both indicated a strong preference to cut back production rather than increasing it. In Iran, the slowdown of maintenance activities will soon eliminate the option that might exist to raise output on short notice even if the government in Tehran wanted to do so. Basically, these policies reflect a strong preference for production profiles that stretch out reserves over long periods. They also reflect an aversion to even a small risk of impairing ultimate oil recovery; and a concern, in the wake of the Iranian revolution, with the disruptive effect of rapid economic development spawned by massive inflows of oil money.

I also believe that these oil producing nations think that we in the oil consuming world have insatiable appetites. They sense that the greater they make their productive capacity, the more they will be subjected to pressure to utilize it. The more they can protect their interests by simply not having the capacity, the more they will. On top of this, a lesser proportion of Persian Gulf production will be available to the industrial countries in the future simply because these countries themselves are industrializing and will need more for domestic requirements.

If then we cannot hope for substantial increases in OPEC oil production, what if we look elsewhere? If we start with the OECD countries, the industrially developed countries, we cannot expect much improvement in oil production there either. North Sea production will peak around 1982-1983 at 1.5 million barrels per day more than today. That will help. But, at the same time, most private sector analysts expect US oil production to resume its downward trend now that the Alaskan pipeline is full. US oil output has exceeded additions to reserves by about a two-to-one margin every year since Prudhoe Bay was added. The Department of Energy projects US output remaining about stable, apparently in the belief that improved incentives due to price decontrol and other measures will greatly increase oil drilling and recovery. I know that this is a controversial matter, I am simply suggesting that industry consensus is on the side of a decline in US output.

Looking beyond the OECD countries to the non-OPEC, lesser developed countries, production there is growing fairly rapidly, especially in Mexico. But most of the increase, except in Mexico, will be consumed locally as industrialization increases. Mexico, by 1982, should be producing about 2.5 million barrels of oil per day of which about 1.1 million barrels will be available for the international market that is not there today. In the longer term, Mexican oil resources should permit greatly increased production and exports, but it is likely that Mexico will follow cautious, conservationist policies. Therefore, it would be unwise to count on large increases in Mexican oil exports during the 1980s.

Next we can look at the Communist countries. What can they contribute? Unfortunately, our prediction of a decline of Soviet oil production and a consequent shift in the position of the entire Soviet Bloc from being net exporters to net importers still is our position. It was controversial when we announced it in 1977, but nothing has occurred to cause us to change our opinion since. We continue to expect Soviet oil production to peak this year or next and to decline soon thereafter. Developments during the past two years reaffirm this 1977 estimate and we find growing support among other analysts for these broad conclusions, if not for the particular numbers we project.

Soviet oil production has been nearly flat in the past year. This is below the Soviet plan. Development trends in the Soviet industry point to an impending decline. Production in the older basins, especially in the Urals has been falling. The entire increase in production in recent years has come from West Siberia, and about 60 percent of that from its supergiant field, Samotlor, alone. Moscow had hoped to get large increases in production from the newer, smaller fields in West Siberia in the past year or two, but their development is considerably behind schedule.

To keep production rising, the Samotlor field has been pushed well above planned levels. Once that field hits peak production, which it may have already, it will probably not be able to sustain that level very long. With production dropping in the older areas and in the Samotlor field, the Soviets can keep total production from falling only by developing new fields at a far greater rate than in the past. The Soviets are pouring large investments into West Siberia, but they face severe constraints such as the remoteness and difficult conditions of the area, including its severe climate. In addition, there are real limitations on what the Soviet oil equipment industry can produce for exploration and development.

This is not to overlook the large unexplored areas of the Soviet Union which may hold substantial deposits of oil and gas. Soviet reserves may be large. But, exploratory drilling has been stagnant for years because of continuous pressure to raise oil output through further development of known fields. In any event, it would take a decade or more to develop any large new fields that may be found whether they be on-shore, in remote tundra-covered areas, or off-shore.

The Soviets are, of course, searching for alternative energy sources. Moscow has been pushing gas production with considerable success, but plans for exploiting coal resources are not being met. On balance the outlook is for greatly reduced growth in the total energy production.

This forces them to look at whether and how much energy conservation could help them. The Soviets' problem is different from ours and we believe that they will have a difficult time achieving greater energy conservation. Very little oil is consumed by private automobiles. Transportation relies mostly on rail so is already energy efficient. Much heat of homes and buildings is already supplied by cogeneration, or

the efficient use of waste heat from the generation of electricity. Overall, the bulk of energy in the Soviet Union is used in heavy industry. Reductions in this area of high priority to them would be difficult and costly.

The Soviets, therefore, will face painful choices in allocating their oil and other energy supplies. I might add that one of the great strengths of our country is that part of the responsibility for that kind of decision rests with the individual citizen. We have capacity in this country for groups like this, for individuals, for corporations to affect oil consumption in a major way. In the Soviet Union those decisions all have to be made by a central authority.

They could cut their oil exports to the West about a million or a million and a half barrels a day right now. Or they could increase oil imports from the Middle East. You recognize, however, that their ability in either of these directions is limited by their hard currency position, and today almost half of the dollar value of total Soviet exports is earned by their oil exports. A different direction for relief would be to cut their exports to Eastern Europe about a million and a half barrels a day right now. From what we can understand, their current plans are to keep that production at about its present level through 1985 or so. They also must recognize that substantial cuts in these deliveries in energy to Eastern Europe would compound the already serious economic problems those countries are having, and they would also have to be concerned with the effect such cut-backs might have on the political stability in that tender area. Another option for Moscow would be to force even greater reductions in an already declining rate of economic growth. It is impossible to predict which combination of these options Moscow will follow. Part of the oil shortfall will probably impact on the Soviet economy and part on the balance of payments.

Where does all this leave us? These trends in production--in the OECD, in the non-OPEC lesser developed countries, in the Communist countries, and in OPEC all add up to a prospective decline in the supply of oil available to the OECD countries. Any decline in oil supply for the OECD nations is an alarming prospect. Traditionally, economic growth has been accompanied by a growth in energy consumption. Now, we do not fully understand the nature of the relationship between economic growth and the growth in energy consumption. It may be flexible to some extent as was evident after the 1973-74 price rises. But, we do estimate that OECD economic growth will be constrained to no more than 2 to 2-1/2 percent by the supply of energy that we believe will likely be available to OECD in the next 3 to 4 years. As we grapple today with incipient recession and accept such unpleasant measures as high interest rates, we must be concerned at the prospect that the next economic recovery may ultimately be limited by a lack of accompanying growth of energy supply.

All of the calculations and predictions that I have shared with you this evening may well be challenged in their particulars. I think the key point I would like to leave with you, whether or not the specific

predictions are correct, is that we are living in a era of great fragility in the supply of energy. First, the situation is fragile because we are so dependent on one area of the world, the Middle East, an area that is so vulnerable to political turmoil today, and an area which is experiencing a revival of traditional religious tenets. Yet at the same time, it is experiencing, particularly through the impact of vast new oil wealth, the often antithetical changes which Westernization and modernization of society bring with them. There is also the danger of unpredictable and erratic, but nonetheless influential, national leaders on the scene. If you look at the panoply of problems in that region today, it is easy to conclude that it is almost inevitable that some form of turmoil will beset this area within the next few years that will affect the availability of oil supply.

A second key factor is that even if there is not some physical upheaval in the Middle East, a major change of the last six years is a clear recognition by leaders of these countries that it is not necessarily in their best interests to produce as much oil as the OECD would want.

Against this situation, with the fragility of supply and the increasing pressures for protection of reserves, the role of conservation becomes more prominent. This role, which you advocate so well, is the only practical remedy for the next few years. The alternative, substantially slower economic growth, would be distinctly more unpleasant. Nothing else can be as certain to help bring supply and demand into balance in the immediate years ahead. It is also the case that if the OPEC nations are ever to be induced to increase production beyond what they may consider to be in their economic best interests, the earnest of extensive and successful US conservation will almost certainly be necessary. Today I received an intelligence report on the attitude of one important OPEC leader toward US conservation. It said that this man has been unsympathetic to US pleas for price restraint by OPEC, charging that such restraint merely enables the major importers to put off the task of conservation. He believes the US record on conservation is particularly poor. Only with a firm signal on conservation from the United States could the OPEC nations possibly be induced to increase production enough to permit a future economic upswing to continue rather than be stymied for lack of energy supplies.

Thus, there is every reason to encourage you to continue encouraging our nation to move boldly in the near term to eliminate the wasteful consumption of energy.

I can only applaud the foresight, the patriotism, the determination of Senator Percy, Senator Cranston and those of you who have supported them and this alliance. As I have already said, the strength of America lies in part in the fact that we as individual citizens, that you as an alliance, can band together and help to solve our nation's problems, not relying only on central governmental direction. I certainly commend and encourage the fact that you are exerting this leadership. It is critical to our country and to our future.

Thank you very much.